


DAVIS LANGDON



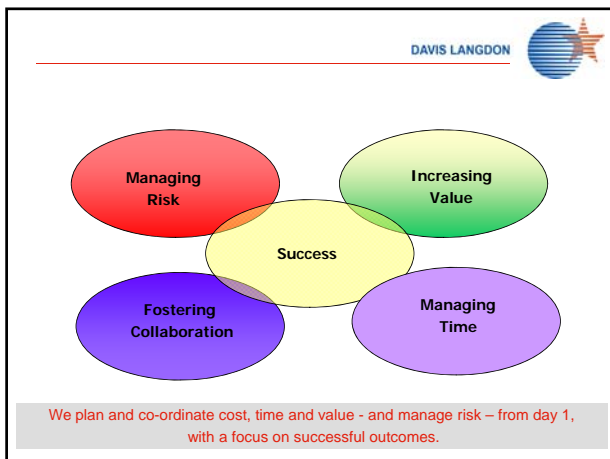
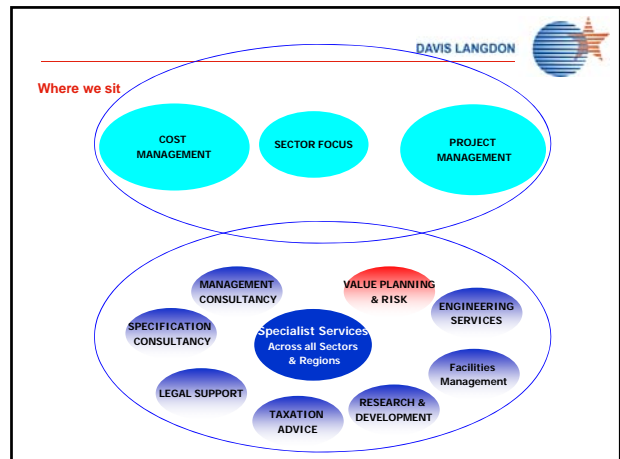
Using Value and Risk Techniques in the Procurement Process

Lee Griffin BSc (Hons) MSc MAPM MoR MCI0B PVM

Associate

Davis Langdon LLP

Lee.Griffin@davislangdon.com



DAVIS LANGDON

Two tier market

■ **Large Projects**

- Continuing opportunities in commercial, public sector and infrastructure
- Limited number of contractors with the resources to do the work
- Limited supply chain
- Sophisticated risk transfer
- High quality job, good risk assurance, client pays premium
- Limited buying opportunities

■ **Medium Projects**

- Opportunities under threat in all sectors
- Shorter project programmes – sensitive to slow down
- Large number of competing tier 1 and tier 2 contractors
- Performance good, but client should retain risk allowance
- Increasing buying opportunities

DAVIS LANGDON

Presentation Structure

Value Management

 →

Risk Management

 →

Case Study






DAVIS LANGDON

Value Management

Risk Management

Case Study





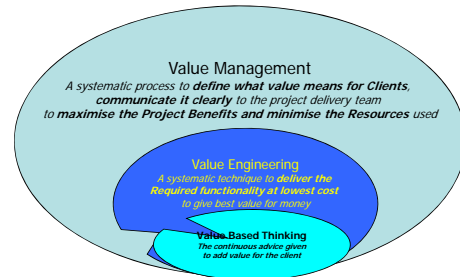
If Value ≠ Cost, what is it?

- Value is derived from achieving maximum benefit for minimum cost
- Benefit is derived from achieving functions
- Functions can be weighted

$$\text{VALUE} \propto \frac{\text{Benefit}}{\text{Investment}}$$

Function Analysis
Cost & Time Analysis

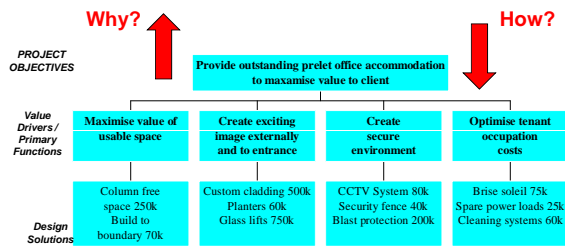
Divide the importance of each function by its cost to get a measure of Value For Money (VFM)



Doing more of the right things for less

"There is no point in doing the wrong thing more cheaply"

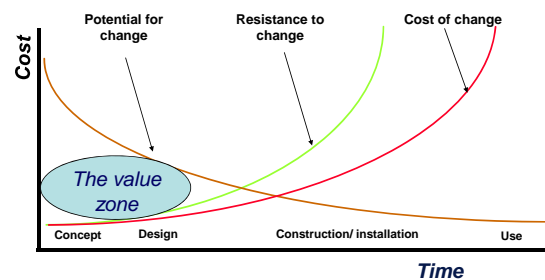
Peter Drucker



Value is in what things do, not what they are



The earlier the better!



Opportunities reduce with time
80% of costs are committed at concept stage



Type	Project Stage	Issue addressed	Study Name
V0	Inception Stage	To validate the need	Need Verification
V1	Concept Stage	To define the optimum project	Project Definition study
V2	Feasibility Stage	To select the best options	Brief Development study
V3	Outline Design Stage	To maximise cost effectiveness	Value Engineering study
V4	Detailed Design Stage (components)	To minimise costs and maximise constructability	Design & Cost Review
V5	Use	Lessons learnt for future projects	Post Project Review



'an uncertain event or set of circumstances that, should it occur, will have an effect on the achievement of one or more project objectives'

APM

DAVIS LANGDON

Assessment

		EVALUATION CRITERIA, VALUE DRIVERS												
No	DESCRIPTION	No	Technology	Service	Quality	Past History	Programme Mgmt						Total	Value Index
			1	2	3	4	5	6	7	8				
1	Prime Contractor A	330	4	5	4	4	4						330	0.9697
2	Prime Contractor B	310	4	3	4	3	4						275	0.8871
3	Prime Contractor C	290	3	3	2	3	4						275	0.9371
4			75	60	40	15	20						310	0.72414
5														
6														
7														
8														
9														
10														

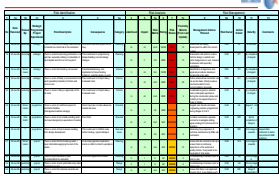
Cost⁴

Benefit ranking: Poor - 1; Fair - 2; Good - 3; Very Good - 4; Excellent - 5.

Value Management Risk Management Case Study

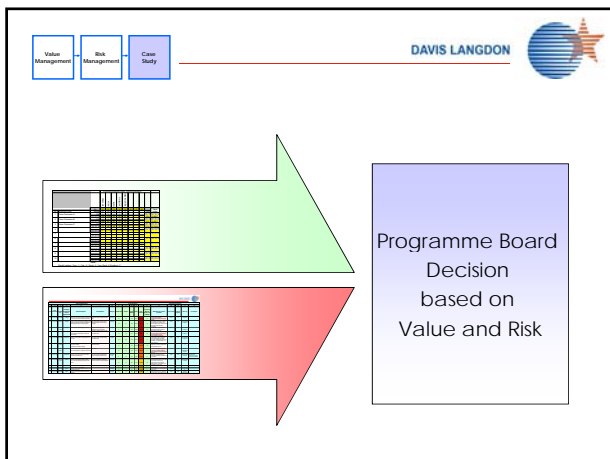
DAVIS LANGDON

Assessment



Each Contractor asked to suggest how they would mitigate the risks

Risk Register produced for each bid from the evaluation



- Conclusions
- If all bidders are competent then it can come down to lowest cost alone!
 - We need more sophisticated cost/benefit analysis
 - Value and Risk Management techniques can be useful for the procurement process
 - The process doesn't replace judgement!

DAVIS LANGDON

Thank You